



City of Long Beach
Working Together to Serve

Memorandum

Date: September 29, 2017

To: Patrick H. West, City Manager *T.H.W.*

From: Amy J. Bodek, Director of Development Services *AJBodek*
John Keisler, Director of Economic Development *JK*

For: Mayor and Members of the City Council

Subject: **Report on Citywide Rental Rates**

On February 21, 2017, the City Council held a Study Session on a draft affordable housing report entitled "Revenue Tools and Incentives for the Production of Affordable and Workforce Housing (Housing Report)." The Housing Report contained, among other things, data on current and historical rental rates in Long Beach. Specifically, the Housing Report contained rental data obtained through Zillow, an online real estate and rental marketplace. During the Study Session, concern was expressed over the accuracy of this data. Staff was asked to conduct additional research on rental rates.

To address the City Council's concern on the accuracy of rental rates, Economic Development Department staff have entered into a contract with CoStar Group, Inc. (CoStar), a firm that provides information, analytics, and market research to the multi-family commercial real estate industry. The data provided by CoStar is consistent and reliable, and has been used to prepare the attached final Report of Citywide Rental Rates. The Economic Development Department will update the Rent Report on an annual basis beginning July 2018, and will utilize this data to monitor progress toward Quality of Life objectives related to housing access as outlined in the Economic Development Blueprint.

If you have any questions regarding this matter, please contact Patrick Ure, Housing Development Officer, at (562) 570-6026 or Patrick.Ure@longbeach.gov.

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ATTACHMENT:
REPORT ON CITYWIDE RENTAL RATES

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CITY CLERK (REF. FILE #17-0108)

REPORT ON CITYWIDE RENTAL RATES

Through June 30, 2017

Department of Development Services
Housing and Neighborhood Services Bureau

Department of Economic and Property Development

September 26, 2017

Background

On February 21, 2017, the City Council held a Study Session to discuss a draft affordable housing report entitled "Revenue Tools and Incentives for the Production of Affordable and Workforce Housing" (Housing Report). The background research in the draft report contained data from online real estate and rental marketplace Zillow.com. However, concerns were expressed over the accuracy and reliability of the data provided by Zillow. The City Council requested that staff conduct additional research on rental rates to paint a more comprehensive picture of the state of the rental market in Long Beach.

In April 2017 staff provided a draft rental report via a memorandum to City Council. The report contained a survey of a number of different data sources regarding rental rates in Long Beach. These sources included commercial real-estate data firm REIS, Inc., the American Community Survey, Apartments.com, and Craigslist.org. Staff found that there was no reliable way to determine whether the data from these sources was up-to-date or comprehensive, and began investigation into a more thorough and current data source.

In May 2017 Economic Development staff began a subscription service to the commercial real-estate database CoStar Market Analytics (CoStar). This includes access to the CoStar Group's comprehensive database for Orange, Los Angeles, and Ventura counties, as well as to a variety of tools for market analysis. CoStar provides granular, verified data on commercial, industrial, and multi-family residential real estate. To obtain this data, CoStar's market research team investigates, tracks, and verifies property characteristics in major markets using phone surveys of property owners and managers, as well as provides up-to-date field research, which is updated for all properties in a market on a monthly basis. Thus, CoStar provides the most comprehensive source of data on current rental rates in Long Beach.

This data source is not without its limitations. Many households in Long Beach rent non-apartment rental properties such as condominiums, single-family homes, duplexes, and triplexes. CoStar does not gather data for these types of properties. Furthermore, the City of Long Beach (City) does not require owners of 1-, 2- and 3-unit properties to obtain a residential rental business license, making it challenging to track the number of these units that are considered rental properties.

CoStar Analytics

There are approximately 67,500 rental housing units in 7,500 multi-family residential rental properties containing four or more housing units, according to business license records kept by the City¹. As of Q1 2017, CoStar's database contained data for 4,085 multi-family rental properties containing 56,220 housing units in Long Beach. Of these properties, CoStar has collected quarterly data on asking rents dating to 2007 or earlier for 1,458 multi-family properties containing 29,039 housing units. This means that

¹ City of Long Beach, Department of Financial Management

CoStar provides comprehensive subset data for approximately 20% of all multi-family buildings, and for 43% of all multi-family housing units citywide. While CoStar attempts to obtain complete rental rate data for all properties in the city, not all property owners provide this data. Nevertheless, the CoStar database represents the most comprehensive, up to date, and verifiable source of rental rate data available to staff.

Inventory of Rental Projects and Units

Table 1 presents the CoStar rental inventory results organized to show the five ZIP codes with the largest number of buildings and units first. These five ZIP codes represent 78% of the buildings and 74% of the units identified in the overall CoStar database.

Table 1. CoStar Rent Data Availability ²				
ZIP	Total in CoStar		With Rent Data Since 2007	
	Buildings	Units	Buildings	Units
Citywide	4,085	56,220	1,458	29,039
90802	831	14,100	265	6,890
90804	776	7,270	238	3,076
90805	301	6,561	143	4,432
90806	410	4,058	175	2,039
90813	854	9,685	340	5,124
90803	325	4,034	99	1,519
90807	128	2,285	46	1,284
90808	34	619	14	431
90810	73	1,692	22	992
90814	298	3,222	86	1,209
90815	55	2,694	23	2,091

Source: CoStar Market Analytics

Average Rents: 2007 - 2017

Staff obtained the mean rents, published by CoStar quarterly, dating back to 2007 for both Long Beach as a whole, and for the ZIP codes within the city.³ This data is summarized in the following table.

² The CoStar information is compiled from multiple data sets. There is a seven building and 48 unit difference between the ZIP code estimates and the summation used to reach the citywide estimates.

³ "Mean" and "average" are used interchangeably throughout this analysis.

Table 2. Mean Rents				
ZIP	Q1 2017	Q1 2016	Q1 2012	Q1 2007
Citywide	\$1,333	\$1,280	\$1,091	\$1,092
90802	\$1,595	\$1,516	\$1,244	\$1,210
90804	\$1,261	\$1,215	\$1,034	\$1,028
90805	\$1,159	\$1,113	\$1,002	\$1,022
90806	\$954	\$919	\$774	\$778
90813	\$1,089	\$1,046	\$881	\$904
90803	\$1,545	\$1,504	\$1,345	\$1,406
90807	\$1,399	\$1,335	\$1,108	\$1,100
90808	\$1,380	\$1,307	\$1,170	\$1,149
90810	\$777	\$752	\$849	\$875
90814	\$1,317	\$1,287	\$1,127	\$1,139
90815	\$1,947	\$1,909	\$1,548	\$1,535

Source: CoStar Market Analytics

Changes in Average Rents: 2007 - 2017

Citywide, the mean rent for multi-family housing units, of all bedroom configurations, rose from \$1,280 in Q1 2016 to \$1,333 in Q1 2017. This represents a 4.1% increase. As shown in Table 3, when all the ZIP codes are considered separately, the increases between 2016 and 2017 range from 2.0% to 5.6%. The five ZIP codes with the largest number of buildings and units exhibited one-year growth rates ranging from 3.8% to 5.2%.

Table 3. Total Rent Growth, 2007-2017			
ZIP	1-Year	5-Year	10-Year
Citywide	4.1%	22.2%	22.1%
90802	5.2%	28.2%	31.8%
90804	3.8%	22.0%	22.7%
90805	4.1%	15.7%	13.4%
90806	3.8%	23.3%	22.6%
90813	4.1%	23.6%	20.5%
90803	2.7%	14.9%	9.9%
90807	4.8%	26.3%	27.2%
90808	5.6%	17.9%	20.1%
90810	3.3%	-8.5%	-11.2%
90814	2.3%	16.9%	15.6%
90815	2.0%	25.8%	26.8%

Source: CoStar Market Analytics

Compound Annual Rent Changes: 2007 - 2017

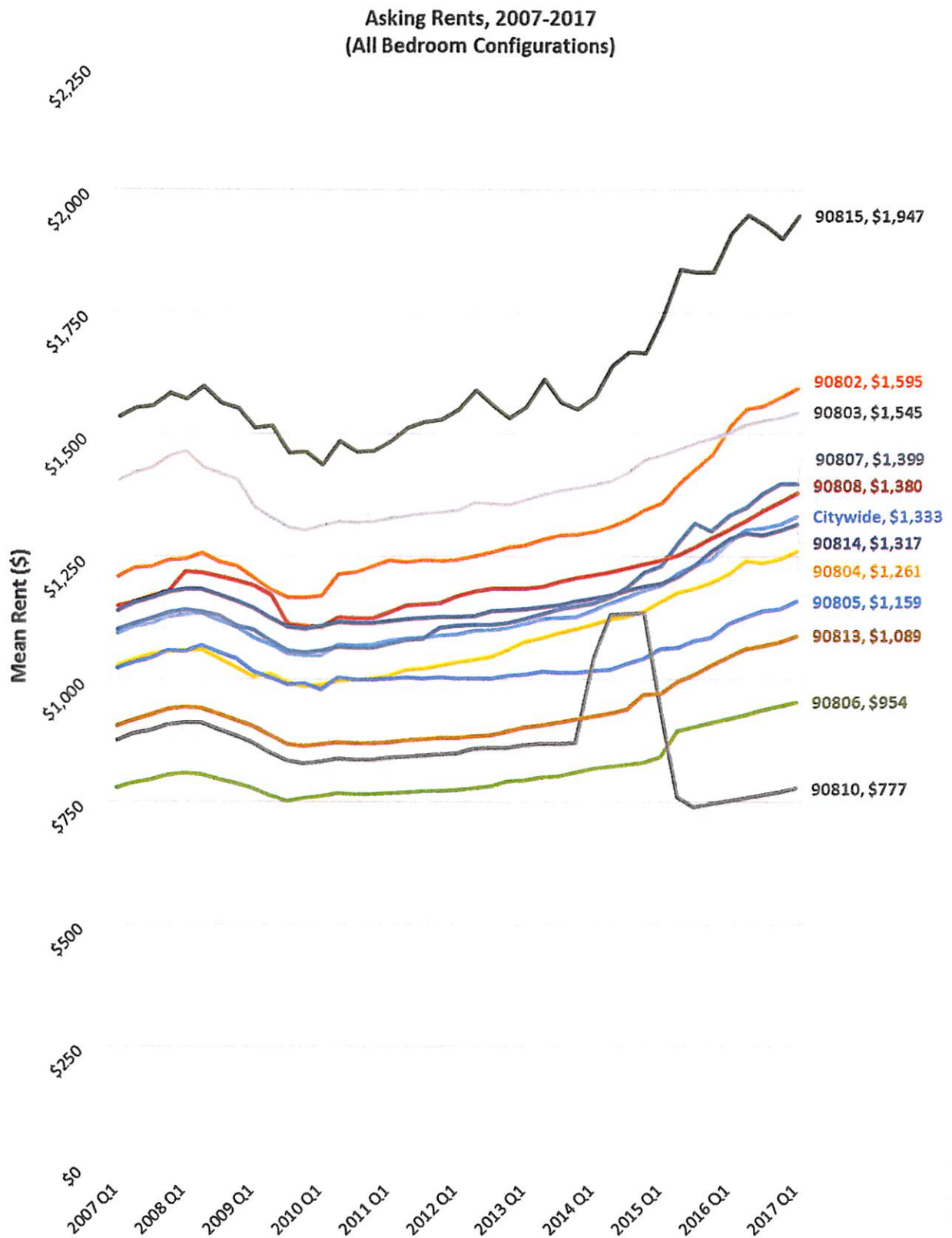
Table 4 presents the compound annual change in rent for the period between 2007 and 2017. According to CoStar, all but one ZIP code in Long Beach experienced an increase in rents since 2012. The five ZIP code with the largest number of buildings and units exhibited compound growth ranging from 3.0% to 5.1% annually. Five of the remaining ZIP codes generated compound growth ranging from 2.8% to 4.8% annually.

Only one ZIP code, 90810, experienced a decrease in rents between 2012 and 2017. This decrease is likely due to a change in the reported asking rents at both the 348-unit Gold Star Manor senior housing complex and the 410-unit Springdale West apartments. These 748 units comprise 75% of the units for which CoStar has data in ZIP code 90810. The acquisition, rehabilitation, and renewal of HUD Section 8 contracts in 2015 at both Gold Star Manor and Springdale West briefly changed the reported asking rents at these properties. Reported rents at Gold Star Manor dropped from \$724 in 2015 Q1 to \$389 in 2015 Q3, while reported rents at Springdale West jumped from \$973 in Q1 2014 to \$1,601 in Q4 2014 and then fell to the previous rate of \$973 by Q3 2015.

Table 4. Compound Annual Growth				
Compound Annual Percentage Change				
ZIP	2007 - 2017	2007 - 2012	2012 - 2017	2016 - 2017
Citywide	2.0%	0.0%	4.1%	4.1%
90802	2.8%	0.6%	5.1%	5.2%
90804	2.1%	0.1%	4.0%	3.8%
90805	1.3%	-0.4%	3.0%	4.1%
90806	2.1%	-0.1%	4.3%	3.8%
90813	1.9%	-0.5%	4.3%	4.1%
90803	0.9%	-0.9%	2.8%	2.7%
90807	2.4%	0.1%	4.8%	4.8%
90808	1.8%	0.4%	3.4%	5.6%
90810	-1.2%	-0.6%	-1.8%	3.3%
90814	1.5%	-0.2%	3.2%	2.3%
90815	2.4%	0.2%	4.7%	2.0%

Source: CoStar Market Analytics

The chart on the following page provides a graphic representation of the annual changes in the mean rents exhibited between 2007 and 2017.



Variances in rental rates among ZIP codes can also be affected by the unit configuration mix. As shown in Table 5, with the exception of ZIP code 90805, the apartment projects within the Long Beach ZIP codes are dominated by one- and two-bedroom units (73% to 97% of the total units). Charts showing the asking rents by bedroom configuration from 2007 through 2017 for all the Long Beach ZIP codes can be found in Appendix A.

Table 5. Bedroom Configurations					
ZIP	Units	Studio	1BR	2BR	3BR
Citywide	28,865	4,302	13,257	10,067	1,239
90802	6,811	1,760	3,258	1,712	81
90804	3,077	1,206	1,399	355	117
90805	4,430	374	1,801	1,851	404
90806	2,007	323	947	636	101
90813	5,080	723	2,819	1,351	187
90803	1,518	242	805	446	25
90807	1,283	190	585	503	5
90808	426	14	168	244	0
90810	991	63	348	456	124
90814	1,232	70	681	434	47
90815	2,090	168	738	1,041	143

Source: CoStar Market Analytics

VACANCY RATES

A certain number of vacant units are needed to moderate the cost of housing, allow sufficient choice for residents, and provide an incentive for unit upkeep and repair. An optimum vacancy rate allows for the healthy functioning of the housing market. When vacancy rates drop below a healthy rate, residents will likely have a difficult time finding units that are matched to their household and income needs. Furthermore, as the vacancy rate drops, competition for units increases, causing housing prices and rental rates to rise.

The California Department of Housing and Community Development (HCD) considers healthy vacancy rates to range from 1% to 4% for owner-occupied housing and 4% to 8% for multi-family rental units, depending on market conditions⁴. For the Southern California Association of Governments (SCAG) region which includes Long Beach, HCD utilized a healthy vacancy rate of 4.5% for multifamily rental units in calculating the Regional Housing Need Assessment (RHNA) Determination for the 2014-2021 projection period.

According to CoStar, the citywide multi-family vacancy rate was 4.6% in Q1 of 2017. While the overall vacancy rate remains relatively low, vacancy rates rose from 4.0% in

⁴ Department of Housing and Community Development, Division of Housing Policy Development

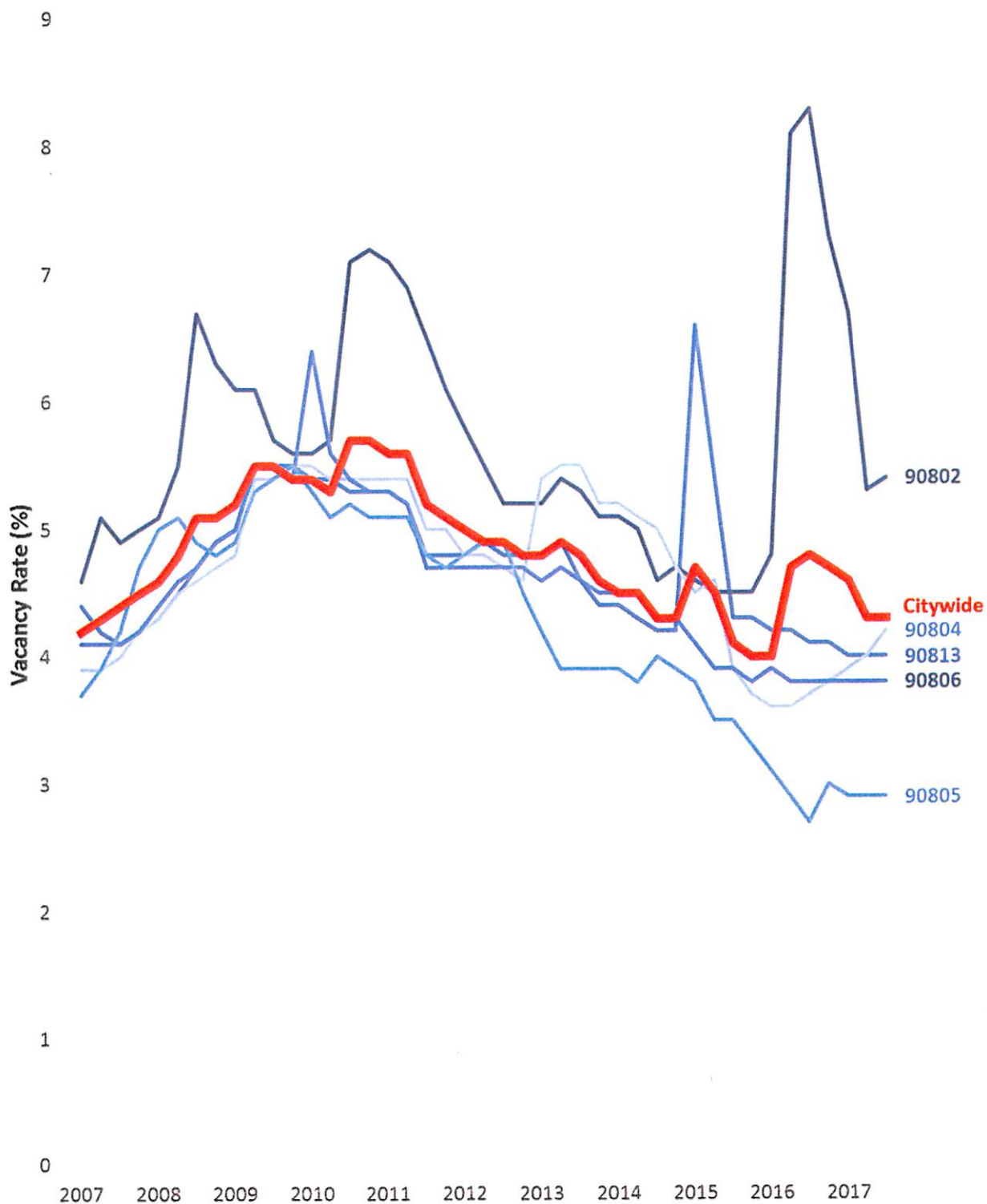
Q1 2016 to 4.6% in 2017, and rose most dramatically in ZIP codes 90802, 90808, and 90815 during this time. In 90802, which includes most of downtown as well as dense residential areas along the coast, this phenomenon can be attributed to large residential rental properties coming online in 2016, specifically The Current (223 units, May 2016) and The Edison (156 units, Sep 2016).

Table 6. Vacancy Rates				
ZIP	Q1 2017	Q1 2016	Q1 2012	Q1 2007
Citywide	4.6%	4.0%	5.0%	4.2%
90802	6.7%	4.8%	5.8%	4.6%
90804	3.9%	3.6%	4.8%	3.9%
90805	2.9%	3.1%	4.8%	3.7%
90806	3.8%	3.9%	4.7%	4.1%
90813	4.0%	4.2%	4.8%	4.4%
90803	5.2%	5.1%	5.5%	4.5%
90807	4.0%	3.9%	4.3%	3.2%
90808	3.1%	2.1%	2.9%	1.8%
90810	1.9%	2.0%	3.8%	3.0%
90814	3.8%	3.8%	4.9%	4.1%
90815	5.9%	4.2%	6.1%	6.4%

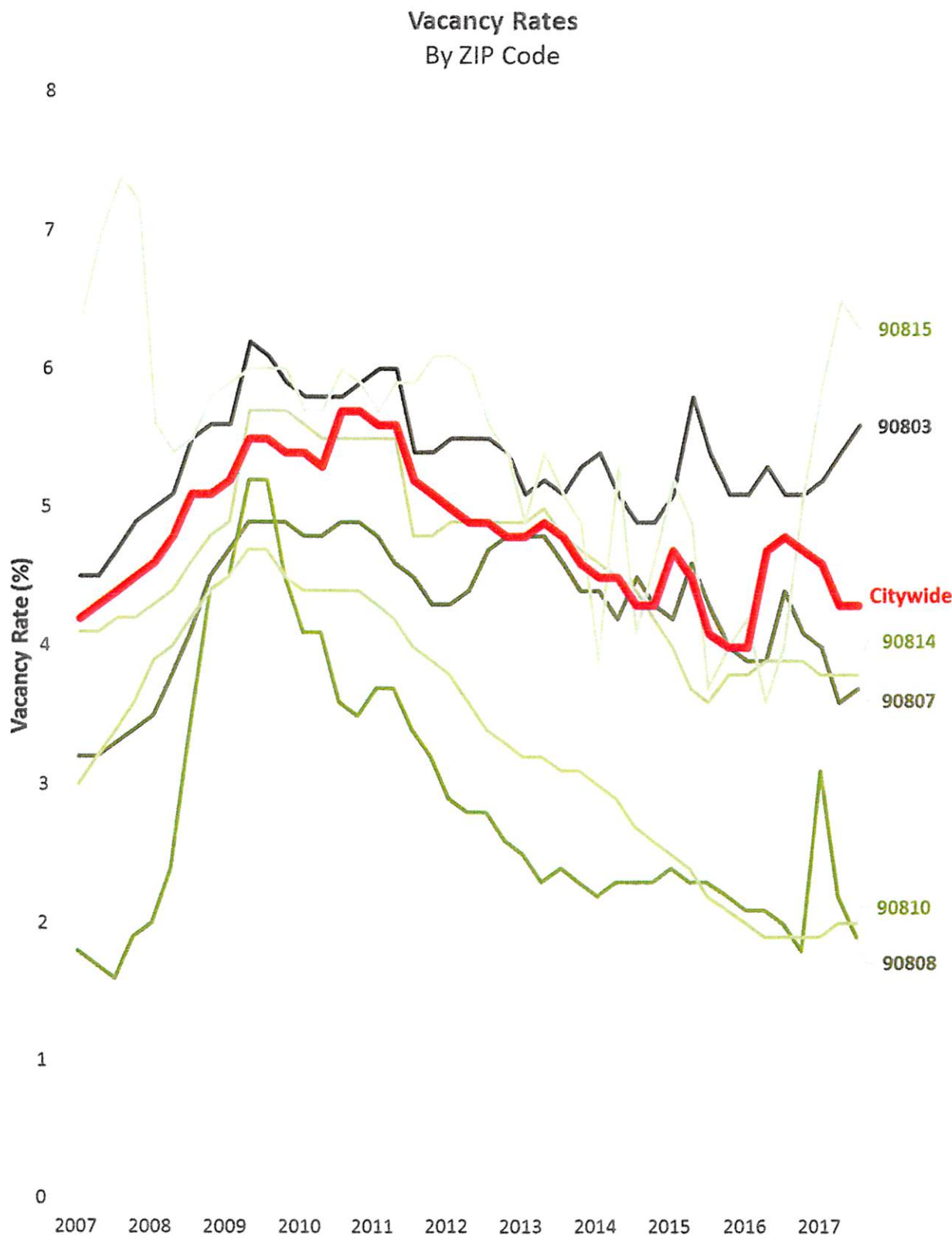
Source: CoStar Market Analytics

Charts showing vacancy rates by ZIP code are presented on the following two pages. As can be seen on the charts, vacancy rates generally peaked in 2009-2010 following the 2008 recession and since that time have generally trended downward.

Vacancy Rates
Top 5 ZIP Codes by Number of Rental Units



Source: CoStar Market Analytics



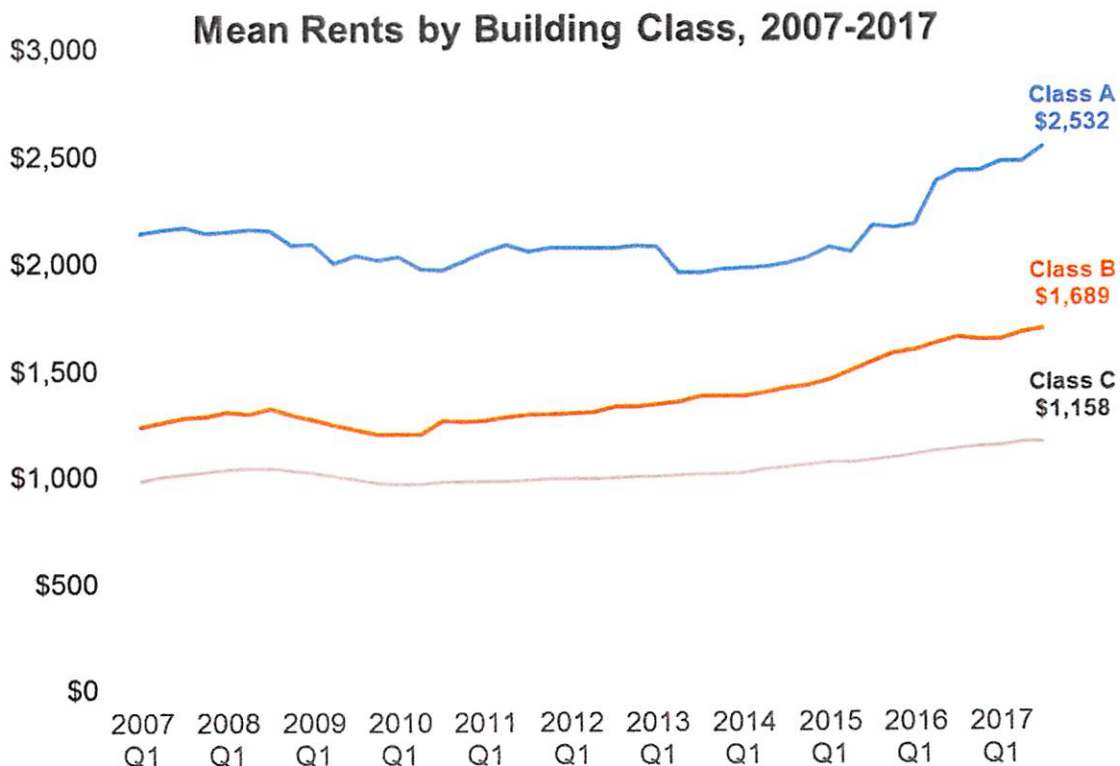
Source: CoStar Market Analytics

Building Rating

Rental rates also differ within a geography depending on the building quality, amenities, and age. Typically, buildings are classified using a Class A, B, and C system. CoStar provides these ratings for residential buildings using the following criteria:

- Class A: New construction (within last 10 years) or substantially renovated. Landscaping, attractive rental offices and/or club buildings. High-end exterior and interior amenities as dictated by market. High-quality construction with highest quality materials. Commands highest rents in markets.
- Class B: Recent construction (within last 20 years) Exterior and interiors may be dated. Good-quality construction with little deferred maintenance.
- Class C: Limited/dated exterior and interior amenities. Properties show some age and deferred maintenance. Majority of appliances are original.

Accordingly, the average rents in Long Beach are higher in Class A buildings. However, of the approximately 29,000 units that CoStar has published rent data for, only 1,428 are Class A, compared to 6,208 Class B units and 21,403 Class C units. This distribution reflects the general age of the housing stock in Long Beach. The following chart shows the mean rents by building class since 2007. As of August 2017, Class A units rent for an average of \$2,532, Class B units for an average of \$1,689, and Class C units for an average of \$1,158. Note that these averages are not standardized for unit size or bedroom configuration.



Source: CoStar Market Analytics

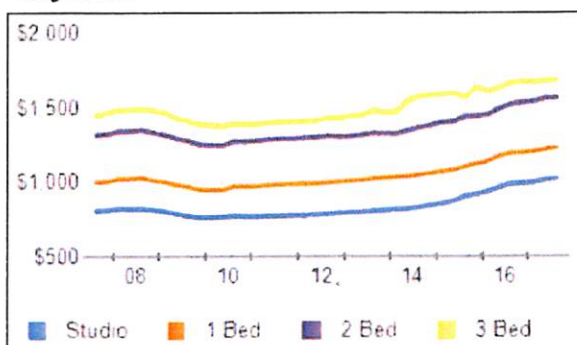
Conclusions

The following conclusions have been derived from the CoStar Market Analytics data presented in this analysis:

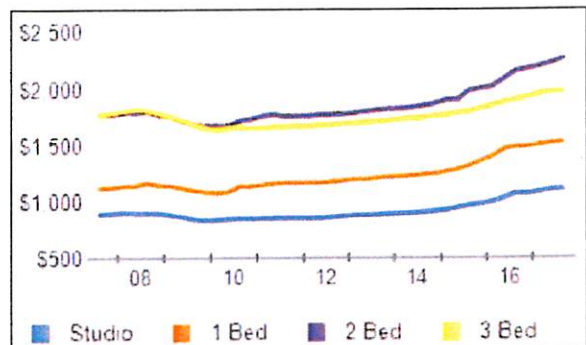
1. In 2010, rents began rebounding from the 2008 recession, and returned to 2007 levels by 2012.
2. During the 2007 to 2017 time period, the citywide vacancy rate reached a peak of 5.7% in 2010, and then over time fell to the current rate of 4.6%.

Report: Long Beach Rental Rates
Appendix A – Asking Rents Per Unit by Bedroom

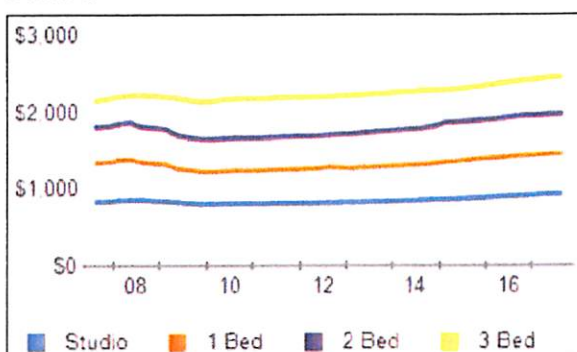
Citywide



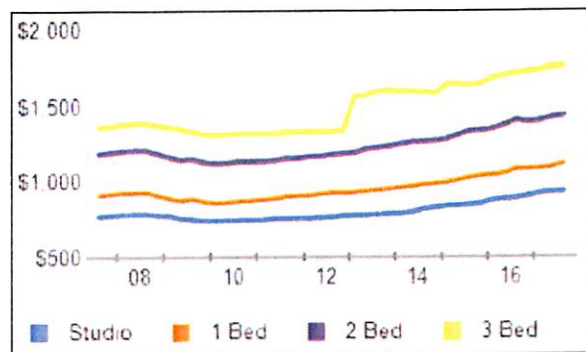
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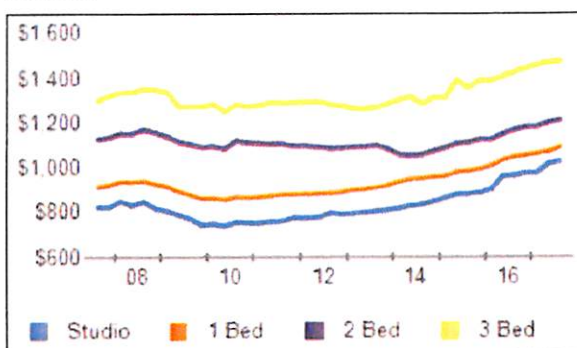
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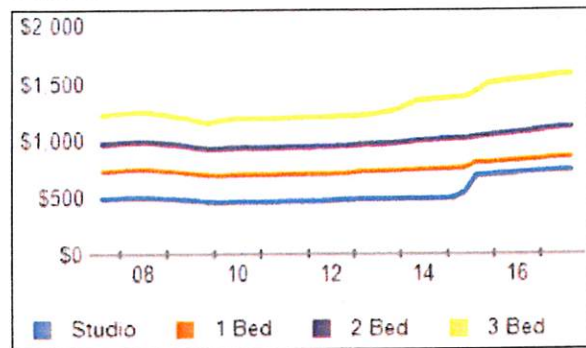
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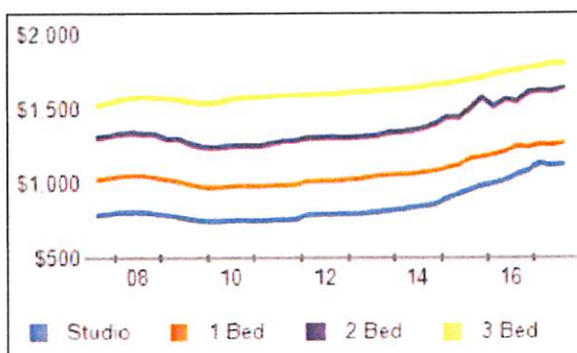
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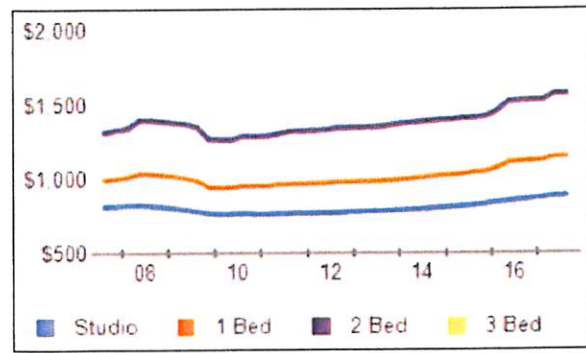
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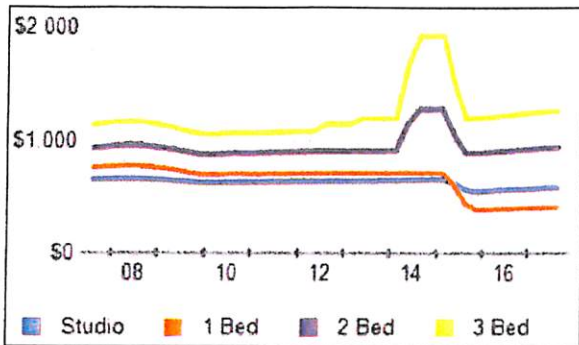


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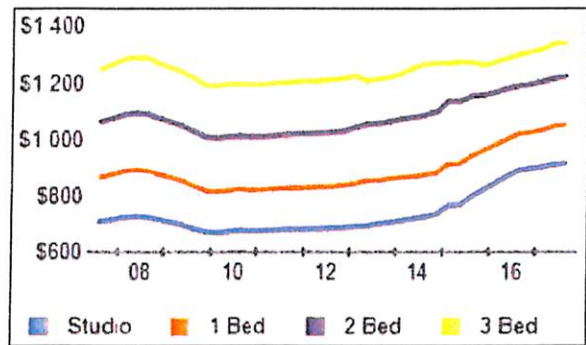


Report: Long Beach Rental Rates
Appendix A – Asking Rents Per Unit by Bedroom

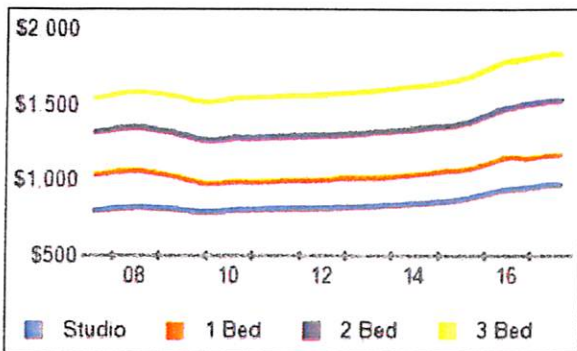
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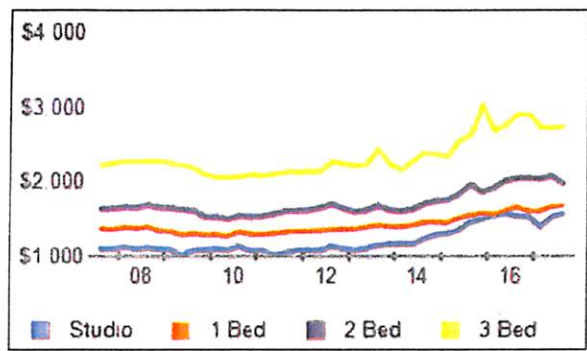
90813



90814



90815



Source: CoStar Market Analytics